NEWS RELEASE

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FOR IMMEDIATE RELEASE
Tuesday, March 20, 2001

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The Bush Budget Threatens the Solvency of Social Security

This report examines the current state of Social Security's finances based on the 2001 Annual Report of the Trustees and points out the threat to the program posed by President Bush's tax cut and privatization proposal.

To fully fund even a partially privatized system of individual accounts (estimated to cost over $1.1 trillion over 10 years in transition costs alone) will require significant revenue transfers either from general revenues or from the Social Security trust fund. Either of these moves will jeopardize the retirement incomes of both current beneficiaries and current workers who will depend on Social Security in the future.

A second threat to the finances of the Social Security Trust Fund is President Bush's proposed tax cut that would likely cost up to $2.7 trillion. Leaders in the majority party in the House and Senate have all signaled their interest in seeing a very large tax cut that will spend any surplus money for the next decade—and consequentially use up the budgetary resources necessary to strengthen Social Security or Medicare.

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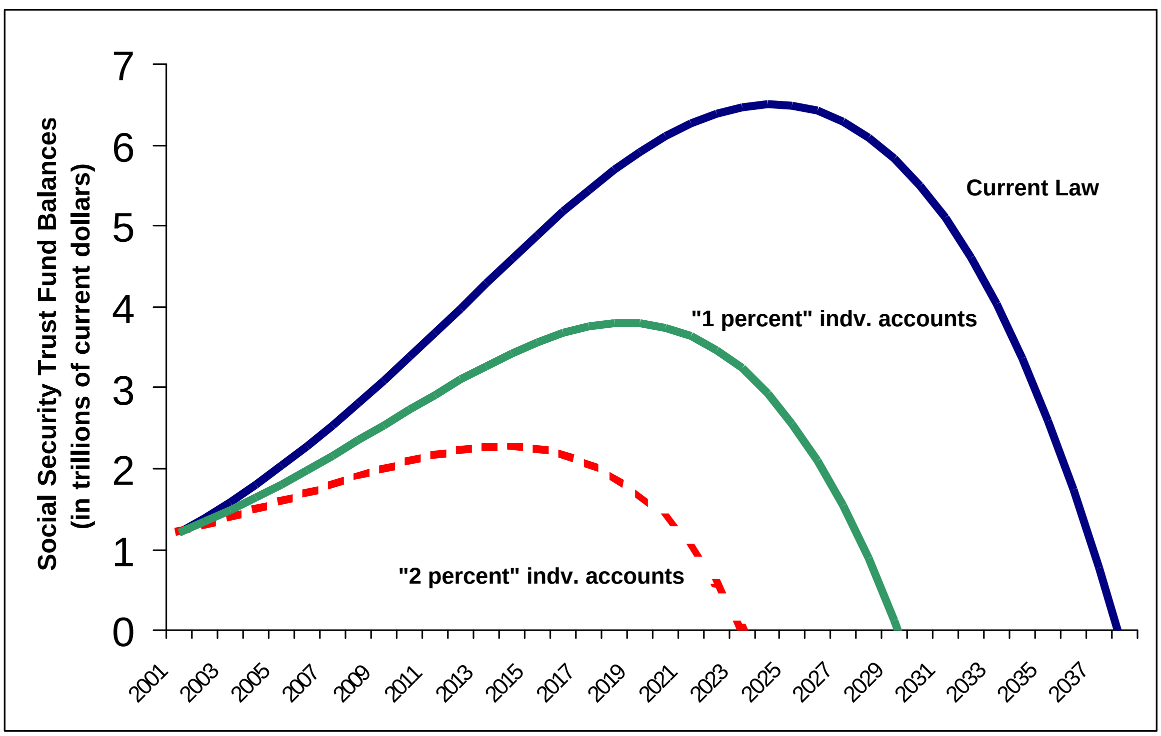
IMPACT OF THE BUSH BUDGET ON SOCIAL SECURITY

Due to long-term demographic trends such as increasing life expectancies and declining fertility rates, the Social Security Board of Trustees estimates that the surpluses currently accumulating in the Social Security Trust Funds will be exhausted by 2038. At that time, incoming tax revenue will be sufficient to pay only about 73 percent of expected Social Security benefits. Consequently, to meet this challenge and to fulfill the nation's obligations to current and future retirees, Social Security will require some infusion of additional resources.

In his address to the Congress last month and in the "Blueprint for New Beginnings" report that his Administration released following that address, President Bush acknowledged both Social Security's long-term financing challenge and the demographic trends that have produced it. Indeed, the "Blueprint for New Beginnings" succinctly states, "As demographics change and costs increase, the challenge we face is ensuring that the Social Security system is strengthened for tomorrow's retirees." Unfortunately, the Bush Administration's plan to privatize Social Security drains crucial resources away from the program and leaves it unable to pay full benefits even sooner than expected in 2038 and the President's proposed budget denies Social Security the budgetary resources to grow stronger.

The Bush privatization plan would drain resources away from Social Security.

President Bush's plan to privatize Social Security would dramatically weaken the program in the short term and deny Social Security the resources it needs for long term solvency. The President's "Blueprint for New Beginnings" calls for replacing Social Security with a new, private system by "allowing individuals to keep some of their payroll taxes in personal retirement accounts…." Of course, allowing workers to divert their payroll taxes into private accounts rather than paying those taxes into the Social Security Trust Funds means that Social Security will not receive the revenue it needs to pay benefits.



The chart above shows the impact of two types of privatization plans on the Social Security Trust Funds and, more importantly, on the Trust Funds' ability to pay full benefits. If workers were to divert 1 percentage point of the current 12.4 percent payroll tax into individual accounts, the amount of revenue flowing into the Trust Funds would fall by $558 billion between 2002 and 2011 and would leave Social Security unable to pay full benefits by 2030, 8 years earlier than currently projected. If workers were to divert 2 percentage points of the current payroll tax into individual accounts, the effect would necessarily be much more dramatic – revenues would fall by $1.1 trillion over the 2002-2011 period and the Trust Funds would be exhausted in 2024.

Although the "Blueprint for New Beginnings" does not provide any specifics about Social Security privatization, it should be noted that of the $2.6 trillion in Social Security surpluses projected for the next ten years, the "Blueprint for New Beginnings" sets aside just $2 trillion for debt reduction. The remaining $600 billion comprises the bulk of the Bush Administration's $842 billion "Additional Needs and Contingency Fund." While the Bush Administration has alternately portrayed this Fund as a source of additional agriculture or national security spending or as a buffer against the uncertainty of budget surplus projections, it could just as easily be tapped by the President to finance the creation of private accounts in place of Social Security.

The Bush Budget would deny Social Security additional resources.

Despite the President's pledge during his address to the Congress to "keep the vital promises of Medicare and Social Security," his budget fails to directly dedicate any additional funds to improving the long-term solvency of Social Security. Instead, the various tax cuts that the President has proposed, when taken together, would consume all available budget surpluses over the next ten years, thus sacrificing an historic opportunity to address pressing long-term needs in favor of short-sighted political gains.

Projected budget surpluses (FY 2002 – FY 2011)		**$ 5.6 trillion**
Projected Social Security surpluses	**-**	**$ 2.5 trillion**
Projected Medicare (HI) surpluses	**-**	**<u>$ 0.4 trillion</u>**
Available budget surpluses		**$ 2.7 trillion**
True cost of the Bush tax cut plus other proposals such as "Immediate Helping Hand" and additional defense spending		
at least	**-**	**<u>$ 2.7 trillion</u>**
Funds remaining to strengthen Social Security		**$ 0**

The Congressional Budget Office (CBO) projects that, from FY 2002 through FY 2011, budget surpluses will total $5.6 trillion. However, on February 13, the House passed H.R. 2, the "Social Security and Medicare Lockbox Act of 2001," effectively setting aside $2.5 trillion in projected Social Security surpluses and $0.4 trillion in projected Medicare (Hospital Insurance) surpluses. As a result, the total amount of surpluses available for tax cuts, spending increases, or other long-term needs is $2.7 trillion.

The President claims that his tax plan would reduce federal revenues by $1.6 trillion over the next ten years. The true cost of his tax plan is much greater. Once the additional costs of fixing the Alternative Minimum tax, extending expiring tax credits, making additional payments on the debt, and all the other tax cut proposals that Congressional Republicans have put forward are taken into account, the true cost of President Bush's tax plan easily comes to $2.7 trillion and may well reach over $3 trillion.